

Shipping – The China Effect

Someone recently wrote “It has been a very unusual period as far as the world economy is concerned.” “That is putting it mildly”, says Jebb Kitchen, Managing Director of Bibby Line Ltd, “particularly when you witness the impact that such levels of economic growth have had on the demand for transportation of goods by sea.”

The shipping industry does not enjoy a particularly high-profile within the media, yet more than 95% of all goods traded internationally are transported at some point in their supply-chain by ships of which there are over 100,000 afloat. How does a parcel of 280,000 tonnes of crude oil move from an export centre in the Middle East to a consuming economy either in the Far East or the US and the answer is not “by air”. How does the grain that goes into so many food production processes move in 50,000 or even 80,000 tonne lots arrive on our shores. Yet it is only in the last two to three years that the shipping markets have hit the main stream business media and for one reason, skyrocketing costs of transportation.

What has created this imbalance between supply and demand that has caused ship values of certain types to increase by a factor of 4 over the space of as many years and charter rates on certain classes of vessels to increase almost 25 fold over the same period! The answer lies predominantly within the borders of China, but also to a lesser extent within India, Brazil and Russia.

Green shoots of economic activity started to appear in the mid-late 90's in China, but as a lot of us will recall, the Tiger economies of Asia collapsed in the late 90's. However, the sleeping giant that was China really awoke in 2003 and started to demonstrate unstoppable economic growth with all the characteristics of a laden super-tanker. In 2002 China produced 180 million tonnes of steel, in 2007 that figure was 487 million tonnes. To produce this steel China relies heavily on importing huge quantities of iron ore and coal, in particular from two distant export centres, Australia and Brazil. The vessels employed on these trades are called Cape Size bulk carriers and are typically 150,000 – 180,000 tonnes deadweight. This huge growth in trading activity has seen values for Cape Size vessels rise from around US\$40 million in 2002 for a new building to US\$100 million in 2008 and second-hand prices are exceeding US\$ 150 million! The charter rates for such vessels have increased from circa US\$ 8000/day in 2002 to US\$ 200,000/day on certain routes.

So will this pace of growth continue in a world already mired in a credit-squeeze and developed economies in or facing imminent recession? The jury is “out” on this one. On the one hand China is forecast to invest heavily in infrastructure projects, budgeting to spend US\$ 400 billion on airports, roads and water systems by 2010, Shanghai alone will spend US\$ 40 billion in 2010 for World Expo. Yet China is also reliant for its economic health on exports and the order-book for new buildings is larger than it has ever been.

One thing is certain, it will be fascinating to watch how the supply-demand equation plays out over the next few years, which will be the focus of Bibby Line as it seeks major re-investment opportunities in world shipping.

